

Argyll and Bute Council

Internal Audit Report

December 2018

FINAL

Risk Management

Audit Opinion: **Substantial**

	High	Medium	Low
Number of Findings	1	0	0

Contents

1. Executive Summary	3
Introduction	3
Background	3
Scope	3
Risks	3
Audit Opinion	3
Key Findings	4
2. Objectives and Summary Assessment	4
3. Detailed Findings	5
Appendix 1 – Action Plan	7
Appendix 2 – Audit Opinion	8

Contact Details

Internal Auditor: **David Sullivan**
 Telephone: **01546 604125**
 e-mail: **david.sullivan@argyll-bute.gov.uk**

Executive Summary

Introduction

1. As part of the 2018/19 internal audit plan, approved by the Audit & Scrutiny Committee in March 2018, we have undertaken an audit of Argyll and Bute Council's (the Council) system of internal control and governance in relation to risk management.
2. The audit was conducted in accordance with the Public Sector Internal Audit Standards (PSIAS) with our conclusions based on discussions with council officers and the information available at the time the fieldwork was performed.
3. The contents of this report have been agreed with the appropriate council officers to confirm factual accuracy and appreciation is due for the cooperation and assistance received from all officers over the course of the audit.

Background

4. Local government has seen and will continue to see unprecedented changes. This will lead to significant new risks, as the Council reviews its services and how they are delivered. Risk management will support and enhance the decision making process, increase the likelihood of the Council meeting its objectives and enable it to respond quickly to new pressures and opportunities.
5. Risk management is the planned and systematic process by which key risks are identified, evaluated and managed so as to maximise benefits and minimise potentially negative consequences to the Council and its partners. Risks are significant uncertainties that may affect the Council's ability to achieve its strategic and operational objectives.

Scope

6. The scope of the audit was to assess the adequacy of, and compliance with, the Council's risk management arrangements.
7. Internal audit reviewed the governance and control arrangements for preparation, maintenance and monitoring of the strategic and operational risk registers.

Risks

8. The risks considered throughout the audit were:
 - **CEU ORR 6:** Risk management is not embedded as an integral part of decision making process
 - **Audit Risk 1:** Risk registers are not updated regularly
 - **Audit Risk 2:** Risks are not properly assessed
 - **Audit Risk 3:** Risks are not prioritised
 - **Audit Risk 4:** Risks are not monitored and reported

Audit Opinion

9. We provide an overall audit opinion for all the audits we conduct. This is based on our judgement on the level of assurance which we can take over the established internal controls,

governance and management of risk as evidenced by our audit work. Full details of the five possible categories of audit opinion is provided in Appendix 2 to this report.

10. Our overall audit opinion for this audit is that we can take a substantial level of assurance. This means that internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.

Key Findings

11. We have highlighted one high priority recommendations where we believe there is scope to strengthen the control and governance environment. This is summarised below:
- the governance arrangements in relation to the management of social care operational risks need to be clarified including responsibilities and the arrangements for regular review and updating of risks.
12. Full details of the audit findings, recommendations and management responses can be found in Section 3 of this report and in the action plan at Appendix 1.

1. Objectives and Summary Assessment

13. Exhibit 1 sets out the control objectives identified during the planning phase of the audit and our assessment against each objective.

Exhibit 1 – Summary Assessment of Control Objectives

	Control Objective	Link to Risk	Assessment	Summary Conclusion
1	Risk management is actively supported and promoted by senior officers/elected members	ORR 6 Audit Risk 2 Audit Risk 4	High	The Council has a comprehensive risk management manual (the Manual) which has been approved by the Strategic Management Team (SMT) and the Policy and Resources Committee (P&R). Roles and responsibilities are identified and arrangements for updating the risk registers have been clearly set out and are being adhered to. Audit Scotland reviewed the Manual and concluded it enhanced the Council's risk management process.
2	There is a systematic approach to identify and prioritise risks and match them with appropriate responses	ORR 6 Audit Risk 1 Audit Risk 2 Audit Risk 3	High	The Manual clearly sets out a systematic approach for identifying and evaluating risks.
3	Risks and the action taken to mitigate them are regularly monitored	ORR 6 Audit Risk 4	Limited	The Council's strategic risk register and the operational risk registers for Customer Services, Development and Infrastructure Services and the Chief Executive's Unit are being

				<p>reviewed and updated as per the requirements of the Manual. However there are concerns over the management of operational risks in relation to social care services. There does not appear to be clarity over the responsibility for maintaining them or clear evidence that they are being reviewed and updated on a regular basis.</p>
--	--	--	--	---

14. Further details of our conclusions against each control objective can be found in Section 3 of this report.

2. Detailed Findings

Risk management is actively supported and promoted by senior officers/elected members

15. The Council has a risk management manual that is subject to regular review. The Manual was updated by the Chief Internal Auditor (CIA) and approved by the SMT in March 2018 and approved by the P&R Committee in May 2018. The Manual is comprehensive and clearly sets out:

- a definition of risk
- the Council's approach to managing risk
- a risk appetite statement
- roles and responsibilities including senior management and elected members
- the risk management cycle detailing the stages that should be undertaken to manage risk.

16. In the Council's 2017/18 external audit report, presented to full Council in November 2018, Audit Scotland concluded that the revised Manual represented an enhancement to the Council's risk management process.

17. A paper approved by the SMT in March 2018 set out the approved dates for the SMT's biannual review of the Strategic Risk Register (SRR) and Departmental Management Team's (DMT) quarterly reviews of the Operational Risk Registers (ORR). Review of SMT and DMT minutes confirmed that, bar the occasional time where a review was postponed for two weeks, these dates are being complied with.

18. The Head of Strategic Finance has operational responsibility for risk management and the Chief Executive provided an annual update on the SRR to the Audit and Scrutiny Committee in June 2018. This update is to occur on an annual basis.

There is a systematic approach to identify and prioritise risks and match them with appropriate responses

19. The Manual sets out a comprehensive process to identify and prioritise risks. In particular how to:

- identify risk
- assess the likelihood and impact of the risk
- prioritise risks (red, amber or green)

- mitigate and manage the risk.

20. The Manual also sets out the following reporting requirements in relation to risk severity:

- red risks to SMT and the CIA
- medium risks to DMT who determine whether they should be reported to SMT and the CIA
- low risks to DMT.

Risks and the action taken to mitigate them are regularly monitored

21. SMT and the DMT minutes for Customer Services, Development and Infrastructure Services and Chief Executive's Unit evidence that key risks are being reviewed and updated as per the requirements within the Manual. In addition copies of operational risk registers were forwarded to the CIA after they were updated.
22. A review of the SRR and ORRs confirmed that all risks have been assessed and prioritised and mitigating action identified where a decision has been taken that the risk requires to be treated.
23. Discussions with the Head of Service for Children and Families and Criminal Justice and Head of Service for Adult Services (East) has highlighted concerns over the management of operational risks in relation to social care services. There does not appear to be clarity over the responsibility for maintaining them or clear evidence that they are being reviewed and updated on a regular basis.

Action Plan 1

Appendix 1 – Action Plan

	No.	Finding	Risk	Agreed Action	Responsibility / Due Date
High	1	<p>Social care risk management</p> <p>There does not appear to be clarity over responsibility for the management of social care operational risks or clear evidence that they are being reviewed and updated on a regular basis.</p>	Risks to social care service delivery may not be effectively managed which could expose the Council to an unacceptable level of risk.	The Head of Strategic Finance will engage with the Chief Officer of HSCP to agree the process for monitoring and reporting Social Work operational risks.	<p>Head of Strategic Finance</p> <p>31 March 2019</p>

In order to assist management in using our reports a system of grading audit findings has been adopted to allow the significance of findings to be ascertained. The definitions of each classification are as follows:

Grading	Definition
High	A major observation on high level controls and other important internal controls or a significant matter relating to the critical success of the objectives of the system. The weakness may therefore give rise to loss or error.
Medium	Observations on less significant internal controls and/or improvements to the efficiency and effectiveness of controls which will assist in meeting the objectives of the system. The weakness is not necessarily substantial however the risk of error would be significantly reduced if corrective action was taken.
Low	Minor recommendations to improve the efficiency and effectiveness of controls or an isolated issue subsequently corrected. The weakness does not appear to significantly affect the ability of the system to meet its objectives.

Appendix 2 – Audit Opinion

Level of Assurance	Definition
High	Internal control, governance and the management of risk are at a high standard. Only marginal elements of residual risk have been identified with these either being accepted or dealt with. A sound system of control designed to achieve the system objectives is in place and being applied consistently.
Substantial	Internal control, governance and the management of risk is sound. However, there are minor areas of weakness which put some system objectives at risk and specific elements of residual risk that are slightly above an acceptable level and need to be addressed within a reasonable timescale.
Reasonable	Internal control, governance and the management of risk are broadly reliable. However, whilst not displaying a general trend, there are a number of areas of concern which have been identified where elements of residual risk or weakness may put some of the system objectives at risk.
Limited	Internal control, governance and the management of risk are displaying a general trend of unacceptable residual risk above an acceptable level and placing system objectives are at risk. Weakness must be addressed with a reasonable timescale with management allocating appropriate resources to the issues raised.
No Assurance	Internal control, governance and the management of risk is poor. Significant residual risk and/or significant non-compliance with basic controls exists leaving the system open to error, loss or abuse. Residual risk must be addressed immediately with management allocating appropriate resources to the issues.